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Mobilization of financial resources

Mobilization of financial resources

Report by the Director General

The present report responds to the mandate provided by decision IDB.25/Dec.5 in which the Director General is requested to maintain a continuous dialogue with Member States in order to actively sustain the common resource mobilization effort. It should be considered in conjunction with the *Annual Report of UNIDO 2013*, which provides information on mobilization of financial resources for that year. The report also provides substantive reporting on the thematic trust funds, and the trust fund for Latin America and the Caribbean, financed through unutilized balances and other voluntary funding.

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I. Introduction

1. Given the limited availability of funding for technical cooperation activities from the regular budget of UNIDO, as defined by the Constitution, the mobilization of extrabudgetary funding for the delivery of UNIDO services is imperative. As shown in the *Annual Report 2013*, the volume of these extrabudgetary funds mobilized in 2013 continued to increase rapidly, reaching $242.9 million (including the net change in the level of future payments due under signed agreements), and reaching $187.4 million net funds made available for implementation. Both figures represent an increase on 2012, and while the latter figure represents the second highest level, the level of funds mobilized in 2013 reached the highest level ever attained by the Organization.

2. Funding from the Global Environment Facility (GEF) amounted to $34.8 million, comparable to approvals worth $34.9 million in 2012. Funding from the Montreal Protocol in 2013 showed an increase to $46.4 million from approvals of $23.4 million in 2012. Funding from governmental sources through a variety of channels exceeded $98 million. In 2013 Japan became the largest single donor in this category.

II. Thematic focus and progress on funds mobilization

3. The strong performance in mobilizing new resources for UNIDO programmes, despite the global economic crisis and the general decline in overall official development assistance, is clear evidence for the wide recognition of the Organization's comparative advantages and for the clear focus on its thematic priority areas. Productive capacity-building, trade capacity-building, and sustainable production and industrial resource efficiency continue to be seen as effective responses to global concerns. The trust placed in the Organization and the renewed interest in the productive sectors, which are considered critical to overcoming poverty in a long-term sustainable manner, results in increased funding for the activities of UNIDO.

4. Guided by the Lima Declaration (GC.15/Res.1), the Organization will continue to promote inclusive and sustainable industrial development by strengthening its capacity to create shared prosperity while safeguarding the environment. UNIDO will further strengthen existing and forge new partnerships with organizations with complementary mandates and skills, as well as with representatives of the public and private sector, financial institutions, academia and civil society, so as to continuously improve the services it provides to Member States and increase the efficiency and effectiveness.

5. As mentioned in the *Annual Report 2013*, the overall funding situation for UNIDO's programme and project activities continues to be healthy and diversified. In addition to 16 governmental donors providing more than $1 million each, funding from multilateral funds as well as multi-donor trust funds, present a sound and diversified funding basis for the future. In line with General Conference decision GC.15/Dec.18 on the "Strategic Guidance Document" and the management criteria contained therein, UNIDO continues to pursue innovative sources of

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financing, including through additional contributions from traditional and emerging multilateral and bilateral sources.

6. The two issues of concern continue to be, as noted in previous years, the requirement of some donors, such as the GEF, for co-funding of projects, and the limited availability of funds that UNIDO can programme. These would be critical in order to respond rapidly to requests for assistance as well as for the design phase of projects and programmes. On the latter issue, the resources contributed by Member States through renouncing their share of the unutilized balances of appropriations for the benefit of the thematic and the Latin America and Caribbean trust funds provide an important basis.

7. The outlook for indirect government funding of UNIDO technical cooperation programmes through various United Nations multi-donor trust funds is mixed. All remaining funds under the Millennium Development Goals Achievement Fund have been allocated before its closure in June 2013. Funding through multi-donor trust funds reached $4.3 million in 2013, the major part of which, some $3.1 million, originated from the "Delivering as One" fund. The contributions through the United Nations Peacebuilding Fund amounted to approximately $0.8 million.

III. Trust fund on food security

8. This section covers recent progress since the last report in February 2013 (IDB.41/10*-PBC.29/10*).

9. In 2013, technical cooperation activities amounting to €656,432, compared to €774,473 from the creation of the trust fund in 2010 until the end of 2012, were financed from resources of the trust fund. The umbrella programme of the Accelerated Agribusiness and Agro-industries Development Initiative (3ADI) absorbed €283,388, or about half of the total resources drawn from the trust fund. The other half was allocated for the development of stand-alone projects. These were mainly in African least developed countries (LDCs), such as the Democratic Republic of the Congo, Ethiopia, Malawi, the United Republic of Tanzania or Zambia, but also in LDCs in Asia and the Pacific region, or the Caribbean, notably in Haiti and Tajikistan, and through a regional project covering Papua New Guinea, Samoa, Solomon Islands and Vanuatu. It is expected that these funds will generate technical assistance projects of over €10 million financed from other sources, thereby meeting the donors' expectations of a significant leverage of the trust fund resources.

10. The increased visibility of the 3ADI itself attracted several additional countries: Cabo Verde, Cambodia, China, Lao People's Democratic Republic, Mongolia, and a number of Pacific island States expressed interest to join the initiative in 2013. Projects reported under development in 2012, such as the ones in Madagascar, Niger and South Sudan, have since been approved and launched. The level of approved projects meanwhile amount to an estimated €20 million, exceeding here again the targets set by the contributors to the trust fund.

11. UNIDO invested so far €1,344,495 into the 3ADI programme, of which the trust fund on food security alone contributed a total of €883,388. Using this core funding, the initiative has been able to mobilize a sizeable amount of financial

resources, particularly for technical cooperation interventions. So far a total of about €11 million has been mobilized as a result of 3ADI interventions, an amount that is expected to increase as the new projects referred to in the previous paragraph come into operations. In a nutshell, €1.3 million of "investment" in the 3ADI programme yielded a "return" of around €30 million of downstream technical cooperation programmes funded from other sources.

IV. Trust fund on renewable energy

12. This section covers progress since March 2013 (IDB.41/11-PBC.29/11).

13. The trust fund has been fully operational for over two years, and significant progress has been achieved. To date, 13 projects developed with the support of the trust fund have been approved by the Global Environment Facility for grant funding of around $35 million, as well as $188 million to be leveraged as co-financing. Of these, five projects have already been approved, as mentioned in document IDB.41/11. Projects funded by the GEF include those in Albania, Cambodia, Cameroon, Chile, Côte d'Ivoire, the Dominican Republic, Egypt, India, Kenya, Madagascar, Nigeria and the United Republic of Tanzania.

14. In addition, four non-GEF projects have been developed with the support of the trust fund with grant funding of $10 million. These include projects in the Caribbean region, Ethiopia and Kenya, India, and the Southern African Development Community (SADC) region.

15. To date, the trust fund comprises funds to the value of €1,072,138, including support costs.

V. Trust fund for Latin America and the Caribbean

16. As mentioned in documents IDB.40/8 and IDB.41/12, a trust fund for Latin America and the Caribbean has been established. In 2013, the Secretariat worked jointly with the Group of Latin America and Caribbean Countries (GRULAC) on the terms of reference for the utilization of the trust fund, approved by the Group in October 2013. In February 2014, GRULAC Vienna initiated a call for project proposals from capitals in the Latin America and Caribbean region. It is expected that implementation of the projects should start later in 2014.

17. To date, the trust fund for Latin America and the Caribbean comprises funds to the value of €596,465, including support costs.

VI. Action required of the Committee

18. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

(a) Takes note of the information contained in document IDB.42/5-PBC.30/5;

(b) Decides to delegate to the Director General the authority to approve projects for financing under the Industrial Development Fund in 2014 and 2015 in accordance with the priorities defined in the medium-term programme framework 2010-2013 (IDB.35/8/Add.1), adjusted in the midterm review of the medium-term programme framework 2010-2013 (IDB.39/8*), and extended until the expiry of the biennium 2014-2015, following decision GC.15/Dec.17;

(c) Encourages Member States and other donors to increase their voluntary contributions to UNIDO;

(d) Also encourages all donors to consider contributing programmable funds, specifically to enable UNIDO to respond rapidly to requests for assistance and develop and implement its programmatic activities in a prompt and coordinated manner;

(e) Requests Member States to consider contributing to UNIDO to enable the Organization to work with funding sources requiring co-funding, either through contributing to the dedicated trust funds or by special purpose funding at country or global level;

(f) Encourages Governments of recipient countries to play an active role in sharing with UNIDO the responsibility for mobilizing funds for jointly agreed priority activities, and specifically to take the lead in identifying and accessing funds available at the country level, including local cost sharing opportunities, and funds from bilateral donors, multi-donor trust funds, United Nations Development Programme, World Bank as well as other development finance institutions;

(g) Strongly recommends that Member States cooperate with and support the Organization in its efforts to develop and promote its programmes and initiatives in the international development context, and especially through international conferences and other forms of dialogue, in order to ensure that these initiatives are well known, their relevance for international development targets are recognized, and resources are made available."

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Item 5 of the provisional agenda
Financial situation of UNIDO, including unutilized balances of appropriations

UNIDO's financial contribution to the United Nations Resident Coordinator system

Report by the Director General

The present report provides information on the financial situation of UNIDO with regard to the funding of the United Nations Resident Coordinator system.

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I. Background

1. The Resident Coordinator (RC) system is an important cornerstone of a coherent and well-coordinated United Nations development system. It encompasses all organizations of the United Nations system dealing with operational activities for development, regardless of their formal presence in the country. The RC system aims to bring together the different United Nations agencies to improve the efficiency and effectiveness of operational activities at the country level.

2. Resident Coordinators, who are funded and managed by the United Nations Development Programme, lead United Nations country teams in more than 130 countries and are the designated representatives of the United Nations Secretary-General for development operations. Working closely with national governments, Resident Coordinators and country teams advocate the interests and mandates of the United Nations system, while drawing on the support and guidance of the entire United Nations family. Resident Coordinators are drawn from a United Nations system RC candidate pool (UNIDO is currently not represented in this pool).

3. Coordinating development operations promotes more strategic support for national plans and priorities, makes operations more efficient and reduces transaction costs for governments. This helps the United Nations to be a more relevant and reliable partner for governments.

4. In particular with a view to addressing the challenges of a post-2015 development agenda, the comparative advantages of the United Nations development system at the country level will depend on several factors. These include effective coordination through a strengthened RC function, further decentralization of authority from headquarters to representatives of funds, programmes and specialized agencies, and the ability of the Resident Coordinators to propose amendments of projects and programmes to align them with the United Nations Development Assistance Framework (UNDAF), as well as amendments to UNDAF, to react to changes of national needs, priorities and challenges. As called for in General Assembly resolution 67/226 of 21 December 2012 and in response to a request from the Economic and Social Council (ECOSOC resolution 2011/7 of 18 July 2011), the principals of the United Nations Development Group (UNDG) reached an agreement in April 2013 on a centralized funding modality in support of the RC system. The funding modality is based on system-wide cost sharing among all UNDG member organizations and seeks to ensure that Resident Coordinators have the necessary, stable and predictable resources to effectively fulfil their mandates. The UNDG has taken the necessary measures to implement the centralized funding mechanism starting in January 2014 and a financial management system is being put in place.

5. This mechanism will replace current ad-hoc arrangements and requests for funds and support for the 10 agreed core coordination functions at the country level:

(a) Strategic analysis and planning;

(b) Oversight of the United Nations country programming cycle;

(c) Representation of and support of United Nations Secretariat and United Nations agencies/non-resident agencies;

(d) Support to national coordination systems and processes;

(e) Development and management of shared operational support services;

(f) Crisis management preparedness and response;

(g) External communication and advocacy;

(h) Human rights and development;

(i) Joint resource mobilization and fund management;

(j) General oversight and coordination of United Nations country teams.

6. The cost-sharing agreement will be based on a global funding scenario of $121 million annually, which is equivalent to some 0.8 per cent of development-related United Nations operational activities for development. Of these, $88 million are provided by UNDP as part of the "backbone" contribution and $33.7 million are to be cost-shared by participating agencies, including UNDP. This cost-sharing arrangement gives priority to countries in transition through the provision of enhanced support. The RC annual reporting system is being revised to ensure transparent reporting on the use of funds.

7. UNDG members participate in the cost-sharing based on the following three-step formula:

Step 1: **Annual base fee** to be contributed by all UNDG members and observers as a reflection that the RC system is owned by and benefits all members of the United Nations development system and recognizing that all members place a minimum load on the system:

(a) $175,000 for UNDG entities with less than $500 million average annual expenditures;

(b) $350,000 for agencies with average annual expenditures greater than $500 million.

Step 2: **Agency staff size and expenditures** as a reflection of the principle of fairness and to ensure that agencies contribute according to their abilities. UNDG member entities, including the United Nations Secretariat, contribute in proportion to their share of total UNDG expenditures (step 2 (a)) and staff count (step 2 (b)).

Step 3: **System load**, recognizes that different entities place a different load on the system and gain different magnitudes of benefit. UNDG members contribute in proportion to the share of currently operational UNDAFs and integrated strategic frameworks, in which they participate at the country level.

II. Current situation

8. Of the 18 UNDG members expected to contribute to the cost sharing modality, 10 UNDG members have confirmed their intent to provide the full amount foreseen in the UNDG cost-sharing formula in 2014. Five of these members have already paid the full amounts including the staff pro forma adjustment for 2014/15. In addition, four members confirmed that they will start contributing with a reduced

amount, and three members have yet to confirm their contributions. The contribution of the United Nations Secretariat will be subject to the approval of the General Assembly during its consideration of the 2016-2017 programme budget.

9. As not all UNDG member entities will be in a position to start contributing to the cost-sharing in 2014, a funding gap is expected for the RC system in the transitional phase of 2014 and 2015, for which the UNDG is seeking continued contributions from Member States, until the cost-sharing modality will become fully operational in 2016.

10. By the end of 2013, $12.3 million was received of the funding target of $33.7 million for 2014. An additional $9 million is expected to be signed and received from UNDG members, supplemented by $6 million from the strategic reserve of the United Nations Country Coordination Fund. The United Nations Development Operations Coordination Office (UNDOCO) has mobilized additional resources from Germany and Switzerland in the amount of $3.6 million for 2014, which reduces the expected funding gap for 2014 to approximately $3 million.

11. In its programme and budgets, 2014-2015 (IDB.41/5), UNIDO indicated that the Organization would not be able to contribute the full amount expected by the UNDG. Meanwhile, a memorandum of understanding has been concluded with UNDG/UNDOCO for the period 2014 to 2015, limiting UNIDO's contribution to the annual base fee of $175,000.

III. Requirements

12. UNDG/UNDOCO expressed its expectation that from 2016 UNIDO will pay its full contribution, as calculated through the cost-sharing formula. While exact requirements are not yet fixed, preliminary estimates indicate an annual expected contribution of €1 million.

IV. Action required of the Committee

13. The Committee may wish to make a recommendation to the Board for its guidance in respect of possible contributions to the RC system for the biennium 2016-2017, inter alia, on:

(a) A maximum level of contribution, which UNIDO will be allowed to pay;

(b) A funding source of such contribution, taking into account the tight situation of the regular budget.

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